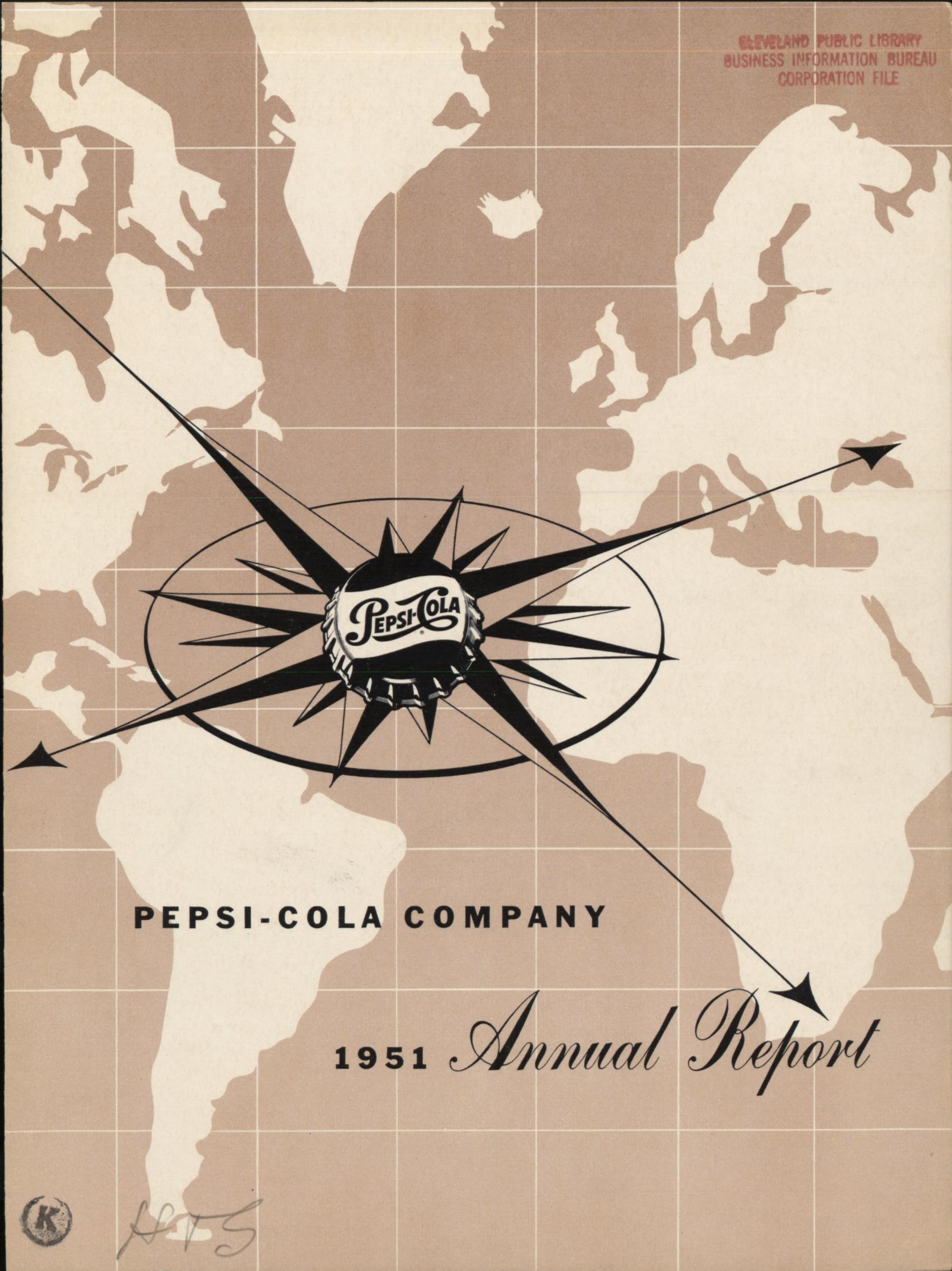


PEPSI-COLA COMPANY

1951 Annual Report

Annual Report, 1951

PEPSI-COLA COMPANY — *3 West 57th Street, N. Y.*

Board of Directors

JAMES W. CARKNER, Chairman
HERBERT L. BARNET
JAMES G. BLAINE
SHELDON R. COONS
JAMES FELT
WILLIAM B. FORSYTHE
HARRY E. GOULD
MORTIMER HAYS
CHRISTOPHER E. HOLZWORTH
ADMIRAL EDWARD O. McDONNELL
HERBERT M. SINGER
ALFRED N. STEELE

Officers

ALFRED N. STEELE, President
WILLIAM B. FORSYTHE, First Vice-President
HERBERT L. BARNET, Vice-President in Charge of Domestic Operations
RICHARD BURGESS, Vice-President, Bottle Sales Division
HARRY W. CHESLEY, Vice-President, National Sales Division
D. MITCHELL COX, Vice-President, Sales Promotion
THOMAS ELMEZZI, Vice-President, Manufacturing
STEPHEN L. GALVIN, Vice-President, Director of Research
MILWARD W. MARTIN, Vice-President, Law Department; and Secretary
CLIFFORD A. RIDDLE, Vice-President, Sales Manager, Bottle Sales Division
A. ALLEN THOMSON, Vice-President, Sugar Division
LOUIS E. NUFER, Treasurer

Auditors

HASKINS & SELLS

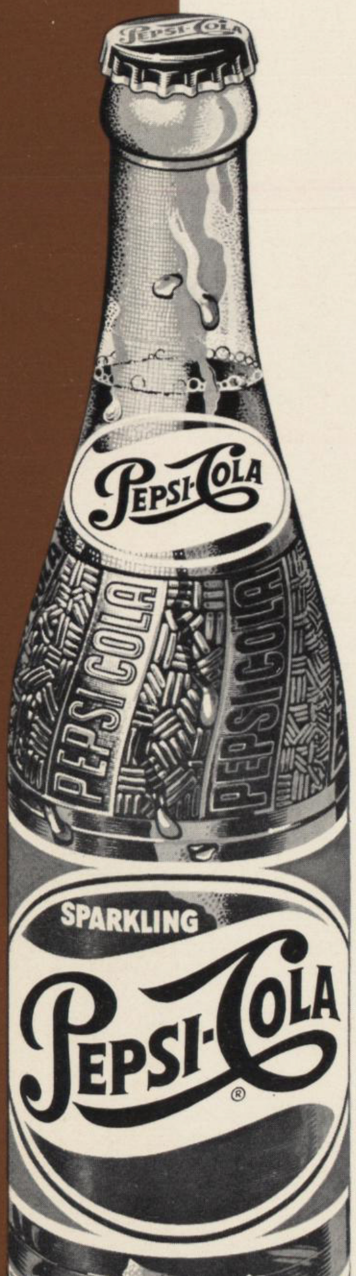
Transfer Agents

THE MARINE MIDLAND TRUST COMPANY OF NEW YORK
THE FIRST NATIONAL BANK OF JERSEY CITY

Registrar

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

March 29th, 1952



Progress Report

In 1951, the Company's new policy resulted in higher sales and a sounder market position, as shown in this review of the year's operations.

TO the Stockholders, Bottlers and Employees of the Pepsi-Cola Company: On behalf of the Board of Directors, I submit this report of the year's operation together with an analysis of our position as we begin 1952. The highlights of the financial results and the financial position of the Pepsi-Cola Company and its Consolidated Subsidiaries for the year 1951 and for the two preceding years are shown in this summary:

Financial Results	***1951***	***1950***	***1949***
Gross Profit on Sales	$30,216,383	$23,765,879	$23,409,907
Income before deducting United States and Foreign Income Taxes	4,192,890	2,544,610	3,667,036
Net Income	2,632,181	1,271,919	2,038,845*
Earnings per Share	45¾c	22c	35c*

(Note: The result for 1951 excludes the British and Netherlands subsidiaries, and the results for 1950 and 1949 have been restated on a comparable basis. Without excluding these subsidiaries, the earnings per share were: 52¾c in 1951; 28c in 1950; and 37c* in 1949. See Note 2 to Financial Statements.)

Financial Position

(Excluding British & Netherlands subsidiaries as noted above)

Current Assets	$18,538,797	$17,248,807	$15,903,319
Current Liabilities	4,830,536	3,784,171	4,496,414
Working Capital	$13,708,261	$13,464,636	$11,406,905
Fixed Assets—net	15,044,434	10,939,904	13,127,283
Other Assets	3,374,015	3,171,161	3,832,609
Total	$32,126,710	$27,575,701	$28,366,797
Long Term Debt; Customers' Deposits, and Reserves	5,309,341	5,221,898	7,284,912
Stockholders' Equity	$26,817,369	$22,353,803	$21,081,885

*Includes income of our former Cuban sugar subsidiary amounting to $393,891, or 6¾c per share.

THE above summary, spanning the period since the present Management assumed responsibility on March 1, 1950, brings into focus the progress that has been made in our announced program of expanding sales through the rehabilitation of plant and equipment, and through the acquisition of the required additional tools of our trade: bottles, cases, coolers, vending machines, trucks and the like—plus the reorganization of executive and sales management, the establishment of regional offices and staffs, and enlarged merchandising and advertising plans. The implementation of this program has been carried forward in the face of the rising costs for labor and materials that followed the Korean conflict in June, 1950—and with simultaneous reduction of the Company's long-term debt.

Increase in Earnings

NINETEEN FIFTY-ONE was the first full year in which our earnings came exclusively from the manufacture and sale of Pepsi-Cola and Evervess, augmented slightly by sales to industrial users of liquid sugar from our self-serving East River refinery. Our Cuban sugar subsidiary and our crown manufacturing plant at East River, in operation in previous years, were both sold in 1950 as reported in our Annual Report to Stockholders for that year.

Despite these divestments, earnings after taxes increased in 1951 to $2,632,181*, compared with $1,271,919 in 1950; or 45¾c earned per share of common stock in 1951 compared with 22c in 1950.

Earnings before taxes were $4,192,890 in 1951, compared with $2,544,610 in 1950.

**Exclusive of $1,831,385 net tax refund—see Summary of Consolidated Surplus in Financial Statements, page 16.*

Rise in Sales

REPORTED case sales of bottled Pepsi-Cola increased 14.1% in 1951 over 1950. It is believed that this gain was substantially in excess of that of the rest of the soft-drink industry.

Sales for the first two months of 1952 continue at an accelerated rate over the same months of 1951. Reported case sales by our Bottlers for January and February, 1952, are at the highest level in the Company's history.

For 18 consecutive months now, sales of Pepsi-Cola have shown an increase compared to the same month of the preceding year.

The Company's Financial Position

IT has become generally apparent that most American corporations are experiencing a heavy drain on their cash resources. This pattern is emphasized for a business like ours, which is still in the process of rehabilitation of facilities and dynamic expansion—without additional borrowings.

The Company's heavy cash requirements included in 1951 expenditures of $8,791,000 for plant construction, additions or improvements, purchase of new plants, vending machines, bottles and cases, and automotive equipment. Similar expenditures in 1950 amounted to $4,669,000; so that a total of $13,460,000 has been spent for these requirements in the last two years.

At the same time, our expanding business has made necessary larger investments in inventories of finished goods, raw materials, supplies and advertising material. We have also paid out in the last two years $670,000 to reduce our long-term note payable.

In view of the foregoing, it is noteworthy that we enter this year in strong financial condition. Cash and Government securities were $10,207,025. Net working capital was $13,708,261. The ratio of current assets to current liabilities was 3.8 to 1, compared with a ratio of 4.6 to 1 at January 1, 1951, computed on a comparable basis.

STOCKHOLDERS' equity during the year has increased from $22,353,803 to $26,817,369, the highest in the Company's history.

This position has been made possible by the utilization of cash reserves and current earnings. No dividends were paid in 1951 or 1950. In that period your Management and Board of Directors believed it to be in the Stockholders' best interest to pursue the Company's policy of rehabilitation and expansion. The subject of resumption of dividend payments is under regular review by your Board of Directors.

Pepsi-Cola Bottlers in the U.S. at the end of 1951

One out of every ten soft drinks consumed in the U.S. is Pepsi-Cola.

Review of Operations

Domestic Franchised Bottlers

THE sales and profits of the Parent Company in the United States market rest on the success or failure of its franchised Bottlers. Mutual success is dependent on two elements: first, the Parent Company's efforts to create an ever-growing consumer demand for Pepsi-Cola and to supply leadership and direction toward more profitable and effective distributing methods; and second, the Bottler's ability and willingness to expand his business through investment in increased production and distributing equipment so as to keep Pepsi-Cola of uniform quality continuously available wherever and whenever it may be consumed.

By the close of 1951, Domestic Bottlers' total case sales were at the highest rate in Company history and, as noted above, the pace of the gains accelerated as the year advanced. The rate is continuing upward at increased tempo in 1952.

THE measure of public acceptance of a soft drink is its *per capita* consumption—the number of bottles consumed in a year, on the average, by each individual in the territory considered. For most Pepsi-Cola Bottlers in practically all franchised areas, even those adjusted to a larger population, this index has risen and is rising. In 1951, three of our Bottlers materially exceeded a *per capita* of 100 bottles of Pepsi-Cola for the population in their areas for the first time—and a substantial additional number of Bottlers have that goal within their reach in 1952.

This result has been obtained largely because of the new spirit of confidence and cooperation between the Management of the Company and its Bottlers. The Company is directing its principal effort to encourage sales expansion by Bottlers. The policy is clearly to the advantage of both. Our prosperity must follow theirs.

A PRIME tool in this policy lies in the development of our new Regional Office organization as announced in our 1950 Annual Report. We believe that a significant part of the 1951 sales increase is due to the threefold effort of our regional staffs. They have been training Bottlers, supervisors and route salesmen both in Bottlers' plants and on route trucks. They have pinpointed the Bottler's weak spots for him, and mapped the way to improved results. They have aided in introducing vigorous merchandising and advertising programs. In one region where it was possible to maintain a year-long program, the Bottlers reported their most successful year in terms of case sales, per capita consumption and net profits.

The example of this region was effective in influencing all others. More Bottlers are investing in trucks, bottles and vending machines, and are expanding manufacturing facilities to get their share of the increased demand now existing for Pepsi-Cola. Since sales increases of varying degree were achieved in every region in 1951, we can expect more Bottlers to follow those who have led the way with proven benefit to themselves.

"On Premise" Sales

ANOTHER key reason for the rise in Pepsi-Cola sales lies in a two-pronged program to stimulate demand in all Bottler areas through vending machines and coolers, and through the Company's National Sales Department. We have been making Pepsi-Cola increasingly available in restaurants, theatres, industrial plants, amusement centers, ball parks, chain stores, military camps, railway terminals and the like. Of all soft drinks consumed in this country, 50% is reported to be consumed away from the home and—as I have noted before—"You get people to buy

By means of newly developed dispensing devices, Pepsi-Cola has been made available in more and more public places like those shown opposite.

Today's Lunch Special!
TURKEY CLUB SANDWICH
BACON, LETTUCE, TOMATO
POTATO SALAD
59
Enjoy a LARGE ICE-COLD
PEPSI-COLA
ROXY
ROXY
ROXY
Pepsi-Cola
WILD ANIMAL
CIRCUS
ENJOY
PEPSI
ICE COLD
Pepsi-Cola

cartons for home use by making it easy for them to try Pepsi outside the home."

In 1951, thousands of additional vending machines and coolers were purchased and installed by our Bottlers in their territories, and by the Company in Company-owned plant areas—and many more were installed by arrangements with concessionaires developed by our National Sales organization.

This vending machine effort, largely defaulted by the Company in the years before 1950, required, and will continue to require, substantial investment not only for the machines themselves but for the additional bottles of our new 8-ounce size which these machines handle. We intend to continue our effort to encourage the purchase of vending machines by Bottlers, and to secure distribution of the 8-ounce package into more and more "on premise" markets. Experience shows that there is an increase in the sales of our 12-ounce home package (10-ounce in some areas) as the 8-ounce package becomes more available for on-premise consumption.

Company-Owned Bottling Plants

IN my two preceding reports, I pointed out the need for large investment of money, time and talent to develop the plants and territories which the Company itself directly owns and operates. The purpose is not only to obtain the sales and profits potential therein, but also to furnish to the franchised Bottlers operating in other areas a positive demonstration of the sales opportunity inherent in a modern, efficient Pepsi-Cola bottling operation effectively run.

We entered the year 1951 operating 15 plants — in Boston, Jersey City, New Brunswick, New York, Philadelphia, Pittsburgh, Teterboro, Alexandria, Rochester, Memphis, Nashville, New Orleans, Baton Rouge, Biloxi, and Montgomery.

During 1951, the Company commenced operating nine additional bottling plants formerly operated by independent franchisees in Mobile, Houston, Portland, Phoenix, Springfield, Mass., Toledo, Milwaukee, Birmingham, Alabama and Monroe, Louisiana.

THAT our policy is now proving itself effective is illustrated by the following developments:

- — Case sales of Pepsi-Cola in all Company-owned domestic bottling plants increased 21.9% over 1950.
- — Case sales in the newly-acquired Company-owned bottling plants increased as much as 200% over sales of previous franchise holders.
- — We sold our Birmingham, Alabama, plant to one of that city's oldest and most respected bottlers. Since his appointment case sales have doubled for that territory.
- — Following modernization and demonstration of sales potential, our plants in Montgomery, Alabama, and Biloxi, Mississippi, were sold to a new franchised Bottler.
- — In Rochester, New York, during 1951 we purchased and equipped a modern plant which developed increased sales. We sold this plant at year end to a successful New York City distributor, who has moved to Rochester to become our franchised Bottler there.
- — Our Toledo, Ohio, plant was sold on January 31, 1952 to another experienced and successful beverage Bottler, who will spend substantial sums in developing and serving that important territory.
- — The plant in Portland, Oregon, after approximately one year's operation by the Company, was sold on February 28, 1952 to a group headed by an outstanding business man of that community for operation by him as our franchised Bottler.

We are presently considering offers to sell other of our bottling plant acquisitions and if evidence of ability, resources and determination to expand distribution of Pepsi-Cola is satisfactory, we will welcome new franchised Bottlers into the Pepsi-Cola Family.

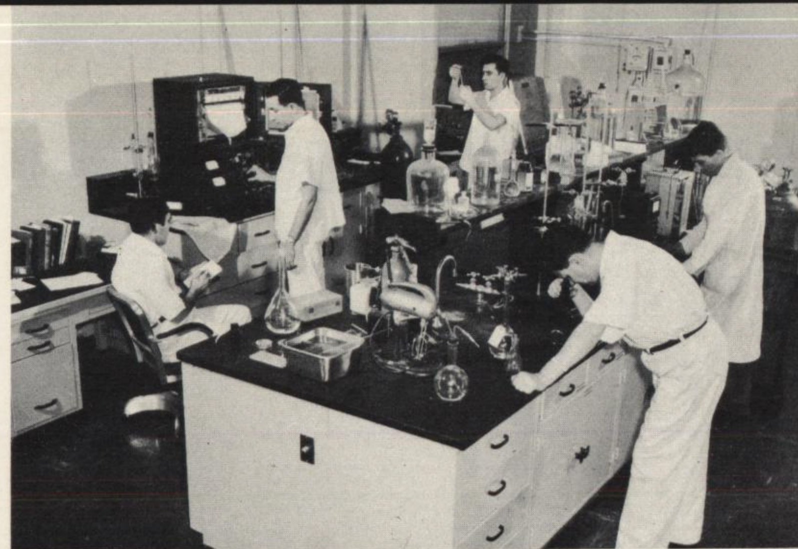
RESEARCH AND QUALITY CONTROL received new emphasis in 1951 with the establishment of a new research laboratory at the Company's East River Plant in New York City. The control work, as illustrated carefully checks all chemicals and materials that may be used in a bottling plant, and tests sugar, concentrate and syrup. The laboratory also evaluates crowns and bottles.

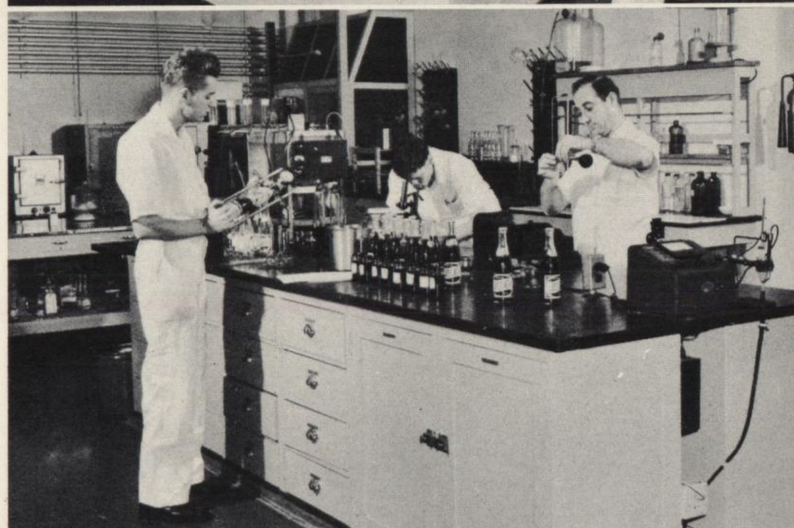
The rigid standards which prevail are reflected in Pepsi-Cola operations throughout the nation, and the country-wide program of quality control is implemented by traveling laboratories.

The interior of one of Pepsi-Cola's seven mobile laboratories is shown at the right. Traveling around the country, these laboratories extend research and quality control to franchised Bottlers, answering local questions, testing water supply, advising water treatment, and assisting Pepsi-Cola Bottlers in control and modernization. A production control man and chemical engineer are assigned to each of the seven units. These technicians are available as scientific consultants to the Bottlers they visit.

Increasing use of the mobile laboratories is planned for the future.

The cooling room at the East River Plant is shown in the photograph below the mobile laboratory. Here Pepsi-Cola is carbonated, then passed into larger tanks where syrup is added. The room is kept at a constant temperature of 35°. After filling and capping operations, the bottles are automatically loaded into cases and move along conveyor lines to truck loading areas.





Mobile Laboratory

Export Sales of Pepsi-Cola

THE rise in the Company's domestic case sales in 1951 was more than matched by the increase in sales of its foreign Bottlers. Foreign markets continue as a source of substantial and increasing profits to the Company.

At the end of 1951, Pepsi-Cola was distributed by 176 independent Bottlers and through 10 Company-owned plants in 44 countries whose population is approximately 166 million.

During 1951, 19 new plants were opened by Bottlers outside the United States, and one by the Company. These are located in 11 countries, bringing an additional 18,000,000 population to our sales potential.

IT is significant, according to best available information, that Pepsi-Cola sales in most foreign markets are usually substantially higher than those of any competitor.

It is now planned that 18 additional areas will be opened for operation in 1952. In certain countries, newly-appointed Bottlers are in process of erecting and equipping large facilities. Some of these require "make ready" investments by the Bottler of as much as $750,000.

The policy of expansion in foreign markets where export sales may be profitable will continue.

Foreign Subsidiaries—Canada

OUR Canadian subsidiary made substantial gains in 1951.

As noted in the tables on page 17 (Note 2 to the Financial Statements), a profit of $306,250 was earned in 1951 compared with a loss in 1950 of $103,758; an improvement of $410,008.

Though total soft drink sales in Canada are reported to have declined in 1951 by 10% below 1950, Pepsi-Cola case sales in Canada rose 18%. As a result, Pepsi-Cola's market position has improved notably both in the "home" and "on premise" markets.

As in the United States, reorganization of management and rehabilitation of plants and markets were undertaken. During the year a new and modern bottling unit was installed in the Company-owned Montreal plant; a new garage was acquired for the Company-owned Toronto plant; and substantial additions of trucks, vending machines, bottles and cases were made in the Company-owned plants in Montreal, Toronto and Ottawa. In late 1951, arrangements were completed to establish an additional concentrate plant at Vancouver, B. C., and the plant of the local Bottler there was purchased for Company operation. It is expected that this new concentrate facility (in addition to Montreal) will make possible sales growth by our franchised Bottlers in the Canadian Pacific Northwest.

It should be noted that the Canadian Company shows an earned surplus at December 31, 1951 as contrasted with a deficit at December 31, 1950.

The Company is planning for further substantial increases in both sales and profits in 1952. Pepsi-Cola has been established in Canada since 1934 and it is the intention of Management vigorously to pursue its opportunity in the expanding Canadian market.

Mexico

HERE, as in Canada, our subsidiary has obtained satisfactory sales increases, with increased profit to the Company. We have completely regained our position and prestige in the Mexican market where, as recently as 1949, our standing was threatened. The use of energetic merchandising principles stimulated Pepsi-Cola sales in 1950 and 1951, and the first part of 1952 shows large increases on top of the corresponding gains ob-

(Continued on page 10)


USINE
DRINK
بيبسي كولا
PEPSI-COLA
بيبسي كولا
اشرب
بيبسي كولا
PEPSI-COLA
بيبسي كولا
٢٣٧٠٣
TWEEDE PRIJS
PEPSI-COLA
VERKOOPKANTOOR
DEN HAAG
衛生食品社
時代嘜咖啡館
PEPSI-COLA

tained in the past two years. To maintain the current rate of progress, most of our Pepsi-Cola Bottlers in Mexico are very materially increasing their production and distribution facilities in 1952.

England and Cuba

OUR English Company-owned bottling operation was greatly increased and improved in 1951, in terms of both production and distribution facilities. A completely new high-production and ultra-modern bottling line was installed in new and larger premises at Park Royal, London. This plant is in all its aspects a credit to our high standards, and it will serve us well not only directly but also as a prototype of modern soft-drink production for the example of our existing and future franchised Bottlers in England.

In Cuba in 1951, our Company-owned bottling plants reached an all-time high in case sales. The steady sales increase of 1951 continues into 1952. A new franchised Bottler has started operations in Cienfuegos, supplying Pepsi-Cola to a portion of Cuba not serviced before.

It is the policy of the Company to establish additional foreign subsidiaries for concentrate manufacture where opportunity may exist to contribute future dollar earnings to the Parent Company.

Pepsi-Cola Employees

AVERAGE employment during the past year in all the Company's plants and offices was approximately 2483. At year-end there were 23 men and women in the Armed Services, some serving overseas.

Relations between employees and the Company were harmonious. There were no work stoppages at any of our plants.

At year-end, 78 retired employees or their beneficiaries were receiving retirement payments under the Company's retirement plan. Life insurance in force under the Company's group insurance and death benefit plans covering employees was $16,973,782.

Executives

IT is with regret and sorrow that we record the death in December, 1951, of Walter W. Colpitts, a Director of the Company since May, 1941. A distinguished consulting engineer, whose career included service to successful enterprises throughout the world, Mr. Colpitts contributed of his wisdom and judgment in faithful interest to the Company until his death. He will be greatly missed.

Herbert L. Barnet, Vice-President in charge of domestic operations, has been elected a Director of the Company.

Stephen L. Galvin was elected a Vice-President of the Company. A bio-chemist with notable experience and success in the food processing field, Mr. Galvin was appointed Research Director.

Emmett O'Connell, former Regional Manager for the Company at San Francisco, was transferred East and elected President of the Pepsi-Cola Metropolitan Bottling Company, Inc., our bottling subsidiary, and made Operating Director of all Domestic Company-owned bottling plants.

PRIOR to my election as President, it had been Company policy to pay management executives additional year-end bonuses not tied to a stated requirement, and which had come to be regarded as part of annual salary. This Management discontinued that policy. It continued the award of a year-end Christmas bonus to salaried employees below the executive level, represented by payment of one or two weeks' extra salary, based on length of service. This year-end payment in 1951 amounted to $122,000.

IT is the belief of the Board of Directors that executive personnel of exceptional ability can be attracted to and retained in Management only by incentive inducements greater than salary alone can now give, in the face of current taxation. Such incentive can best be accomplished, the Board believes, by giving executives of that type the opportunity to purchase with their own funds stock of the Company on an investment basis with payment to be made over an extended period of time.

This need for the mechanics of facilitating stock purchases by key executives, and of inducing them to put their own funds into the stock of their own company, has been widely felt throughout industry, and programs for its accomplishment have been adopted by many companies. An exhaustive study of such plans as used by other companies has been made by the Board with a view to preparing for this Company a plan that would involve no expense to the Company but would put the Board in position to offer to key executives the opportunity of purchasing Company stock with their own funds under arrangements attractive to them.

Accordingly, the Board has adopted for this purpose a Stock Option Plan which will

be submitted for your endorsement at our coming Annual Meeting.

This Plan makes 200,000 shares of the Company's stock available for the granting of options by the Board, at option prices to be fixed by the Board in each instance but which shall never be less than 85% of the market price of the stock on the New York Stock Exchange on the day the option is granted. The purchase of the shares may be extended by the employee over a five-year period, the employee to receive his shares only upon payment for them in full.

Under date of November 21, 1951 the Board granted options under the Plan to six key executives of the Company to purchase up to a total of 90,000 shares at a price of $9⅛ per share, that being the closing price of the stock on the New York Stock Exchange on that date. There accordingly remain 110,000 shares available to the Board for granting further options under the Plan, none of which may be granted to any member of the Board nor to any of the employees to whom options have already been granted.

The Board strongly recommends the Plan to the stockholders for approval.

The Future

IN my last Annual Report reference was made to certain developments which gained added significance in 1951. I refer to increases in the price of competitive soft drinks due to rising costs of manufacture and distribution. The acceleration of that trend in 1951 placed our Bottlers in an increasingly favorable competitive position—further enhanced wherever the 8-ounce size has been added to our traditional 12-ounce home package (10-ounce in some areas).

Despite the slight decline in the prices of certain commodities and supplies currently reported in some industries, we foresee a continuing pressure to raise the cost of manufacture and distribution in the soft drink industry; and, in addition, advertising costs will similarly increase as circulation grows with an expanding population. As our consumer outlets multiply, so must our expenditures for identification signs and promotional material increase.

But ours is a business where volume is rewarding—where profits rise rapidly as sales climb. With more and more of our Bottlers expanding their investments and efforts, we may confidently expect sales to continue to increase, and profits to grow.

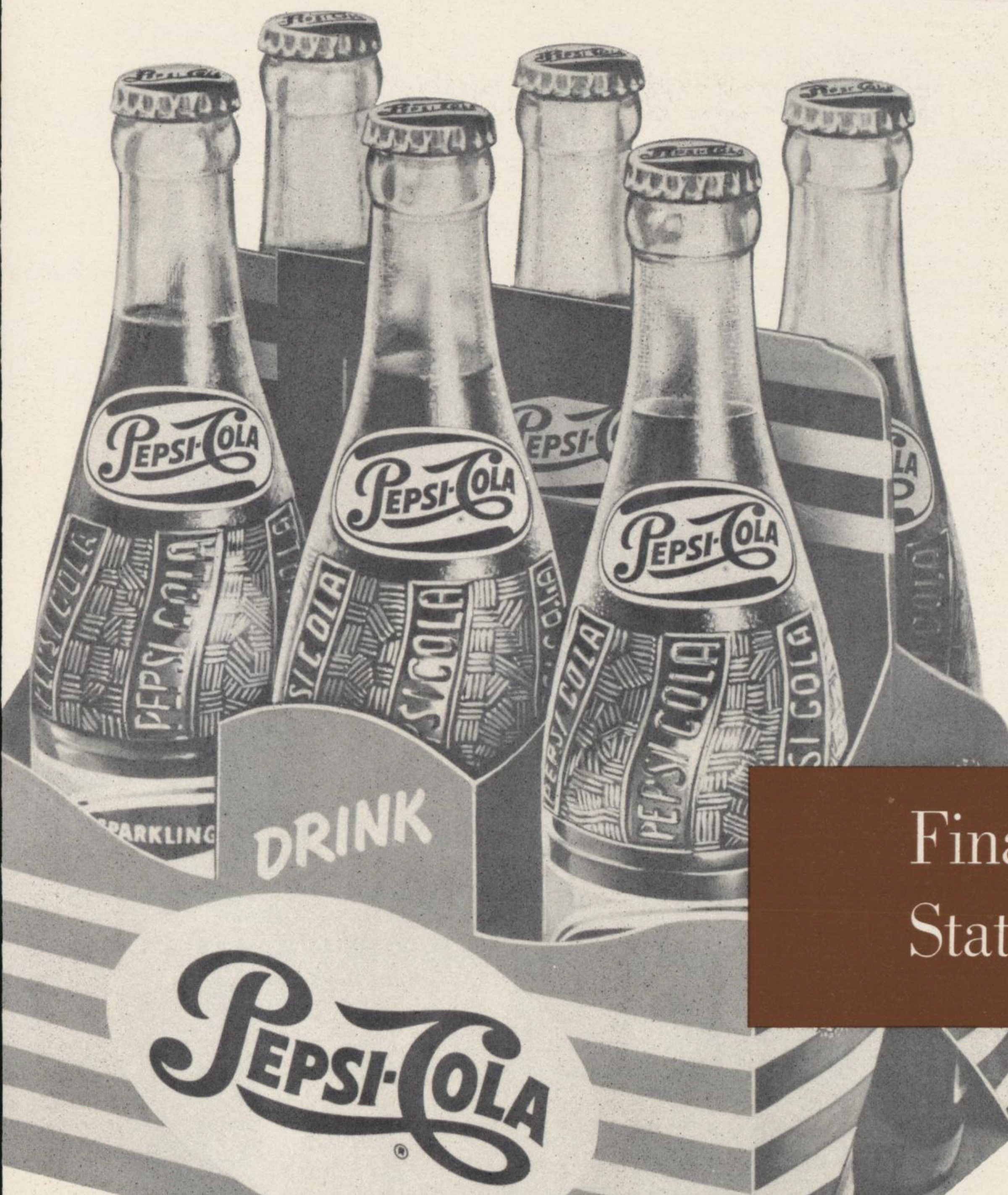
We take this opportunity to express the sincere appreciation of the Board of Directors and Officers to the men and women of Pepsi-Cola and to our Bottlers for their continued devotion and effort in the Company's interest, and to our thousands of Stockholders for their confidence and understanding support.

Respectfully submitted

BY ORDER OF THE BOARD OF DIRECTORS

Alfred N. Steele

PRESIDENT



Financial Statements

Consolidated Balance Sheet

ASSETS

	December 31 1951	December 31 1950
CURRENT ASSETS:		
Cash	$ 8,390,255	$ 6,587,372
United States and Canadian Government obligations (market value—1951, $1,820,085)	1,816,770	4,769,442
Notes and accounts receivable (less reserve for doubtful receivables—1951, $99,760; 1950, $124,198)	2,123,114	1,303,670
Inventories:		
Finished, in-process, raw materials, and supplies	4,726,087	3,727,920
Vending equipment held for resale	1,482,571	860,403
Total current assets	$18,538,797	$17,248,807
MISCELLANEOUS ASSETS:		
Notes and accounts receivable—not current	$ 449,985	$ 393,678
Bottling machinery, etc., held for resale	555,115	488,758
Investment in, and advances to, subsidiaries not consolidated	508,861	491,852
Cost of 16,000 shares of capital stock of the Company acquired for an officer (payment to be received by December 31, 1956)	171,420	171,420
Other	425,027	398,474
Total miscellaneous assets	$ 2,110,408	$ 1,944,182
PROPERTY, PLANT, AND EQUIPMENT:		
Land, buildings, equipment, leasehold improvements, etc.—at cost (less reserve for depreciation and amortization—1951, $6,042,235; 1950, $4,735,851)	$11,559,221	$ 8,149,331
Bottles and cases on hand and with trade (at estimated depreciated values)	3,485,213	2,790,573
Total property, plant, and equipment—net	$15,044,434	$10,939,904
DEFERRED DEBIT ITEMS:		
Prepaid insurance, taxes, etc.	$ 307,208	$ 310,905
Advertising materials and expenses	810,769	741,209
Other	145,629	174,864
Total deferred debit items	$ 1,263,606	$ 1,226,978
TRADEMARKS, FORMULAS, AND GOODWILL	$ 1	$ 1
TOTAL	$36,957,246	$31,359,872

Reference is made to the accompanying Notes to Financial Statements starting at page 17.

AND CONSOLIDATED SUBSIDIARIES

Other than British and Netherlands subsidiaries; see Note 2, page 17.

DECEMBER 31, 1951 AND 1950

LIABILITIES

	December 31 1951	December 31 1950
CURRENT LIABILITIES:		
Notes payable (including current installments on long-term obligations)	$ 396,694	$ 512,000
Accounts payable and accrued	2,313,539	2,205,224
Accrued taxes—estimated:		
United States and foreign income taxes (less United States Treasury tax notes—1950, $1,028,600)	1,544,142	596,970
Other taxes	576,161	469,977
Total current liabilities (exclusive of customers' deposits on bottles and cases, shown below)	$ 4,830,536	$ 3,784,171
OTHER LIABILITIES:		
Note payable to insurance company, 3%, due June 1, 1963, payable $333,000 annually (current installment included above)	$ 3,664,000	$ 3,997,000
Other notes, and mortgages assumed	474,375	125,000
Customers' deposits on bottles and cases	1,170,966	1,099,898
Total other liabilities	$ 5,309,341	$ 5,221,898
CAPITAL STOCK AND SURPLUS:		
Capital stock—authorized 7,500,000 shares of 33⅓c each; issued and outstanding 5,752,659.57 shares (including 654.57 shares in treasury—see below)	$ 1,917,553	$ 1,917,553
Capital surplus	5,535,125	5,535,125
Earned surplus (since August 1, 1939)	19,375,399	14,911,833
Total	$26,828,077	$22,364,511
Less treasury stock (654.57 shares, at cost)	10,708	10,708
Total capital stock and surplus	$26,817,369	$22,353,803
TOTAL	$36,957,246	$31,359,872

Reference is made to the accompanying Notes to Financial Statements starting at page 17.

Summary

CONSOLIDATED INCOME

FOR THE YEARS ENDED DECEMBER 31, 1951 AND 1950

	Year Ended December 31 1951	1950
GROSS PROFIT ON SALES	$30,216,383	$23,765,879
ADVERTISING, SELLING, SHIPPING, GENERAL AND ADMINISTRATIVE EXPENSES	26,246,768	21,766,074
PROFIT FROM OPERATIONS	$ 3,969,615	$ 1,999,805
OTHER INCOME	559,650	855,483
GROSS INCOME	$ 4,529,265	$ 2,855,288
INCOME CHARGES	336,375	310,678
INCOME BEFORE DEDUCTING PROVISIONS FOR UNITED STATES AND FOREIGN INCOME TAXES	$ 4,192,890	$ 2,544,610
PROVISIONS FOR UNITED STATES AND FOREIGN INCOME TAXES—Estimated:		
United States (no excess profits tax)	$ 900,000	$ 943,000
Foreign	660,709	329,691
Total	$ 1,560,709	$ 1,272,691
NET INCOME	$ 2,632,181	$ 1,271,919

CONSOLIDATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1951

	Earned Surplus Since August 1, 1939	Capital Surplus
BALANCE, BEGINNING OF YEAR	$15,581,870	$ 5,199,550
ADJUSTMENT—To exclude surplus (deficit) of the British and Netherlands subsidiaries from the consolidated statements for 1951	670,037	(335,575)
BALANCE, BEGINNING OF YEAR, AS ADJUSTED	$14,911,833	$ 5,535,125
NET INCOME FOR THE YEAR	2,632,181	
SURPLUS CREDIT—Refunds (net) of United States income and excess profits taxes (principally under Section 722 of Internal Revenue Code) less net of expenses, prior years' interest, and related tax reduction	1,831,385	
BALANCE, END OF YEAR	$19,375,399	$ 5,535,125

Reference is made to the accompanying Notes to Financial Statements starting at page 17.

Notes *TO FINANCIAL STATEMENTS*

December 31, 1951

1. The inventories are stated at cost, certain inventories being at average cost and the others being on the basis of first-in, first-out. Such costs were not in excess of market.
2. The accounts of the British and Netherlands subsidiaries are excluded from the financial statements for 1951 because of continuing stringent foreign exchange restrictions. In previous years the accounts of these subsidiaries were included in the consolidated statements; for purposes of comparison the figures shown for 1950 have been restated and similarly exclude these subsidiaries.

   Foreign subsidiaries consolidated:

   The current assets and liabilities, total assets and liabilities, earned surplus, and net income included in the 1951 consolidated financial statements for foreign subsidiaries are as follows:

	Canadian subsidiary	Cuban subsidiary	Mexican subsidiaries	French subsidiary	Brazilian subsidiary
Current assets	$1,494,333	$ 416,206	$ 924,405	$182,321	$48,496
Current liabilities	189,349	93,471	313,134	3,060	
Total assets	2,696,229	1,665,244	1,184,816	285,282	68,013
Total liabilities	189,349	164,665	313,134	3,060	
Earned surplus (deficit)	235,866	(475,688)	493,389	(16,778)	
Net income (loss) for year	306,250*	(27,930)	839,741**	(16,778)	

**After provision of $91,000 to restate bottles and cases on hand at estimated depreciated values.*

***After deducting United States and foreign taxes of parent company on income collected from subsidiary.*

The assets, liabilities, income and expenses of these subsidiaries are included in the consolidated financial statements on the following basis: the assets (other than property, plant, and equipment) and liabilities have been converted into United States dollars at the current rates of exchange at the respective year ends; income and expenses (except for depreciation) have been converted at rates prevailing during the respective years. Property, plant, and equipment have been included at amounts which represent their United States

Notes *TO FINANCIAL STATEMENTS*

continued

dollar equivalent at the time of acquisition or origin; provisions for depreciation have been converted at rates prevailing at time of acquisition of the related assets.

Provisions for taxes related to the transfer of funds to the United States are made only at the time of such transfers.

Foreign subsidiaries not consolidated:

The current assets and liabilities and total assets and liabilities of the British and Netherlands subsidiaries not consolidated, and the parent company's equity therein at December 31, 1951, and the subsidiaries' net income for the year are as follows:

Current assets	$1,060,357
Current liabilities	640,898
Total assets	1,909,239
Total liabilities	661,708
Parent company's equity in net assets	1,247,531
Net income for year*	408,291

3. The Federal income and excess profits tax returns of the Company and domestic subsidiaries have been examined and settled through the year 1944; the tax returns for the years 1945 to 1948, inclusive, are under examination.
4. The provisions of the note payable to the insurance company include certain restrictions on the payment of cash dividends on the capital stock of the Company. At December 31, 1951 approximately $5,700,000 of earned surplus was free of such restrictions.
5. At December 31, 1951 the Company and consolidated subsidiaries were contingently liable as guarantors of bank loans, principally to various franchised Bottlers, aggregating $1,975,164.
6. The provisions for depreciation and amortization charged to manufacturing and expense accounts amounted to $1,501,785 in 1951 and $893,076 in 1950.

**After provision of $139,000 to restate bottles and cases on hand at estimated depreciated values.*

Accountants' Certificate

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

67 BROAD STREET
NEW YORK 4

THE DIRECTORS AND STOCKHOLDERS
OF PEPSI-COLA COMPANY:

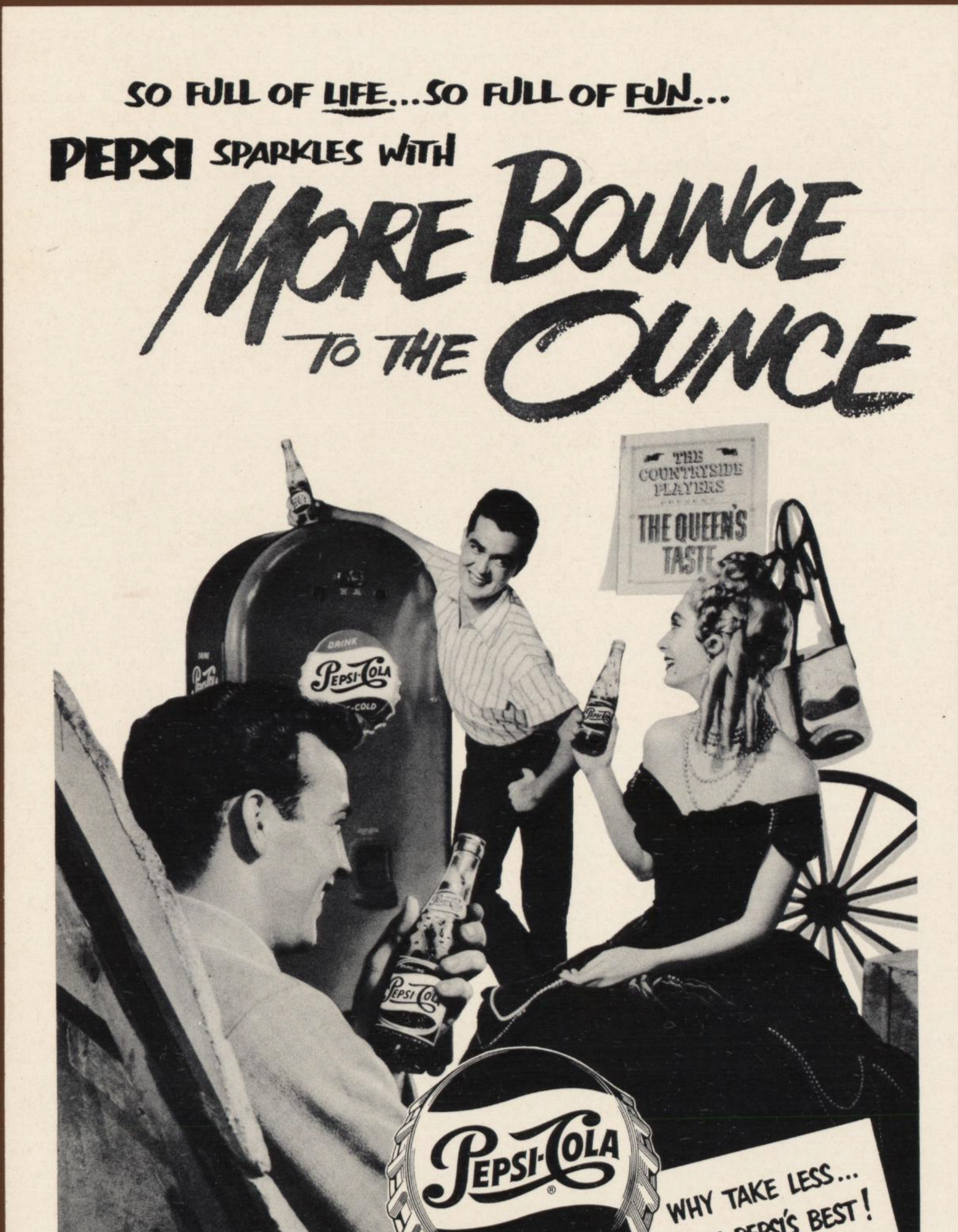
We have examined the balance sheet of Pepsi-Cola Company and consolidated subsidiaries as of December 31, 1951, and the related summaries of consolidated income and surplus for the year then ended. As to the companies other than the Canadian subsidiary our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. As to the Canadian subsidiary, we examined a report of chartered accountants and the figures for that company included in the accompanying statements are derived from such report. The total assets of this subsidiary amount to approximately 7% of the consolidated total, and its gross profit on sales and net income for the year are approximately 7% and 12%, respectively, of the consolidated totals.

In our opinion, which as to the Canadian subsidiary is based upon the report of other accountants as above mentioned, the accompanying consolidated balance sheet and the related summaries of consolidated income and surplus, with their notes, present fairly the financial position of the companies at December 31, 1951, and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year except as to the change described in the first paragraph of Note 2 to the Financial Statements, which change we approve.

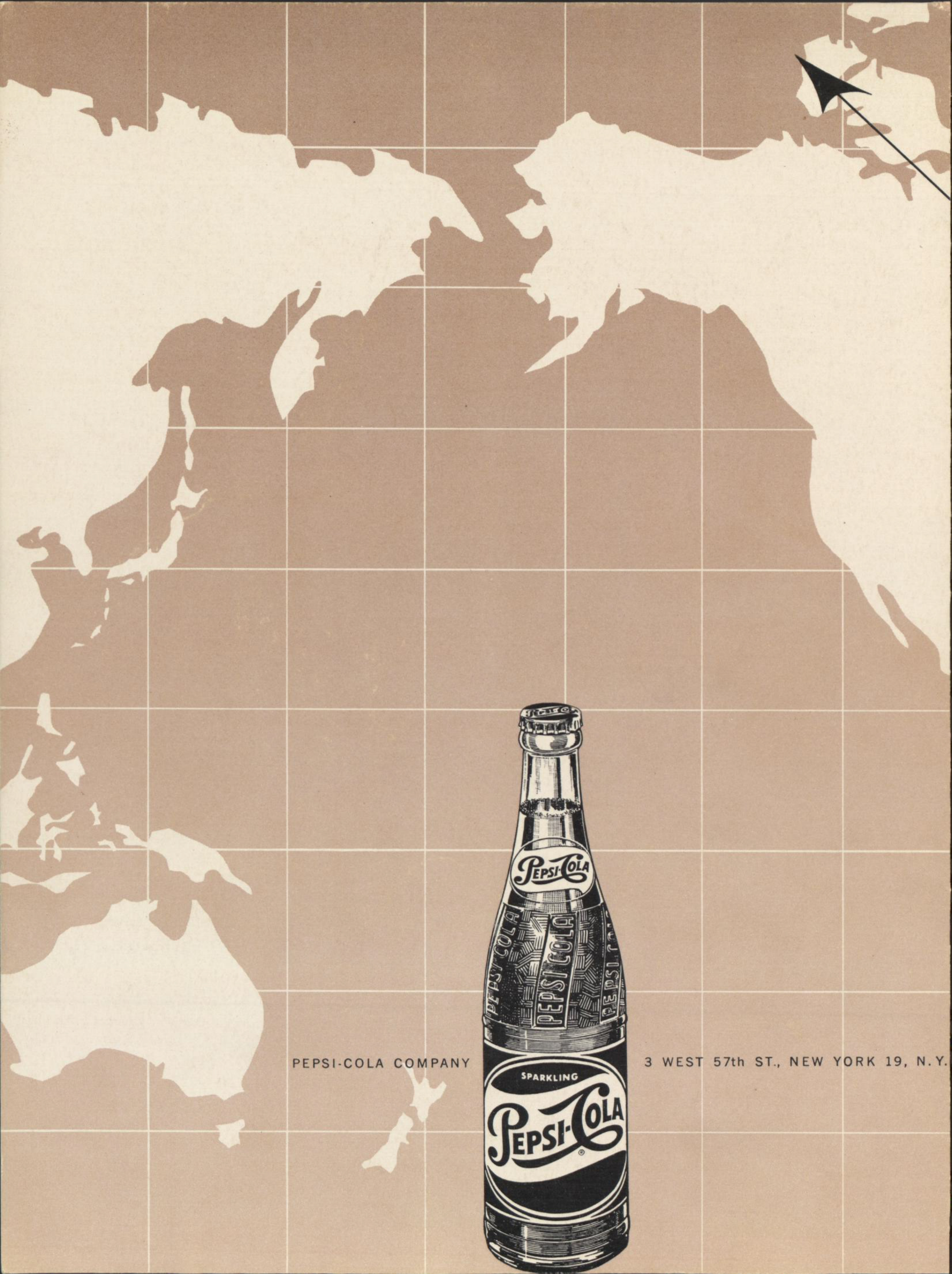
HASKINS & SELLS

March 21, 1952.

Some typical Pepsi-Cola point-of-purchase displays



Advertising themes carry through the major emphases of our merchandising policy, as shown in this typical newspaper advertisement stressing the availability of Pepsi-Cola in vending machines


Pepsi-Cola
PEPSI-COLA
SPARKLING
Pepsi-Cola
PEPSI-COLA COMPANY
3 WEST 57th ST., NEW YORK 19, N.Y.